

INCOME TAX: ALLOWANCES

There are two new Income Tax allowances effective from 6 April 2016 for those receiving investment income from savings and dividends.

The Marriage Allowance has now been in effect for almost a year and must currently be claimed from HM Revenue & Customs by the spouses or civil partners concerned.

Personal Savings Allowance

The introduction of the Personal Savings Allowance (PSA) from 6 April 2016 will enable basic rate taxpayers to earn up to £1,000 in savings tax free. From this date banks will also stop deducting basic rate tax from savings.

The PSA is restricted to £500 for higher rate tax payers. Additional rate taxpayers (those with income exceeding £150,000) are not entitled to any PSA.

What counts as savings income?	<ul style="list-style-type: none"> • Interest from accounts with banks, building societies, credit unions and NS&I. • Income from government or company bonds. • Interest distributions from authorised unit trusts, OEICs and investment trusts. • Most types of purchased life annuity payments.
How much is the Personal Savings Allowance?	<p>This depends on whether you are a basic, higher or additional rate taxpayer:-</p> <ul style="list-style-type: none"> • Basic: £1,000 • Higher: £500 • Additional: Nil
Calculation	<p>This is not strictly an allowance as the savings income subject to the PSA is not completely removed from the tax calculation. Instead it is more of a zero rate band that the will mean the individual does not have to pay tax on the first £1,000 or £500 of savings income received. That savings income will remain part of the taxable income for the calculation of the applicable tax bands.</p>

Dividend Taxation Allowance

From 6 April 2016 dividends will no longer be paid with the notional 10% tax credit. Instead this will be replaced by a dividend tax allowance of £5,000 per tax year.

Dividends up to the allowance will not suffer any tax, but dividends in excess of this will be taxed at the following rates:-

Band	Amount (£)	Rate (%)
Basic rate	0 - 32,000	7.50
Higher rate	32,001 - 150,000	32.50
Additional rate	Over 150,000	38.10

The dividend tax allowance does not reduce total income for tax purposes and is more clearly seen as a zero rate band. Dividends will continue to be taxed as the 'top slice' of income with any dividends within the allowance counting towards taxable income for the year.

Dividends received by pension funds that are currently exempt from tax and dividends within ISAs will continue to be tax free.

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Marriage Allowance

The Marriage Allowance came into force on 6 April 2015 and lets you transfer 10% of your Personal Allowance to your husband, wife or civil partner.

For 2016/17 this equates to £1,100 and gives a basic rate tax saving of £220 for the year.

The transfer is conditional on being married or in a civil partnership and:-

- One of the couple needs to have taxable income of £11,000 or less, i.e. the transferor must have some unused personal allowance;
- Neither spouse nor civil partner paying tax at the higher rate, i.e. the transferee has income of up to £43,000 in 2016/17; and
- Neither spouse nor civil partner making a claim for the Married Couple's Allowance (which applies when one of the couple is born before 6 April 1935).

Subject to all of the above conditions being met, you can apply online to transfer part of your Personal Allowance to your spouse or civil partner. In order to apply you need:-

- Your own and your partner's National Insurance numbers; and
- Proof of identity, being either:
 - The last four digits of the account that your Child Benefit, Tax Credits or pension is paid into; or
 - The last four digits of an account that pays you interest; or
 - Details from your P60.

In-year applications must be made online (www.gov.uk/marriage-allowance) before 5 April 2017 if it is to apply. If your application is successful the relevant part of your Personal Allowance will transfer automatically to your spouse or civil partner every year until one of you cancels the Marriage Allowance claim or your circumstances change.

If the in-year application is missed it will be possible to apply for the marriage allowance retrospectively for up to four years in the past (although 2015/16 will be the furthest tax year you can go back).

*** Please note that HM Revenue & Customs do not currently have a facility in place for agents to make applications on behalf of clients. Ward Goodman are therefore unable to complete an application for you. However, if you do make an application, please let us know so that we can note your file accordingly. ***
